

# County of Los Angeles CHIEF ADMINISTRATIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012 (213) 974-1101 http://cao.co.la.ca.us

December 10, 2003

Board of Supervisors GLORIA MOLINA First District

YVONNE BRATHWAITE BURKE Second District

ZEV YAROSLAVSKY Third District

DON KNABE Fourth District

MICHAEL D. ANTONOVICH Fifth District

To:

Supervisor Don Knabe, Chairman

Supervisor Gloria Molina

Supervisor Yvonne Brathwaite Burke

Supervisor Zev Yaroslavsky

Supervisor Michael D. Antonovich

From:

David E. Janssen

Chief Administrative Officer

STATE BUDGET UPDATE

### Los Angeles County's Fiscal Year 2003-04 Vehicle License Fee Loss

Now that local governments are receiving reduced Vehicle License Fee (VLF) payments from the State, we have been asked to estimate how much the County could lose in revenue and what the potential impact might be on the County budget.

If this were a normal year, the County could count on receiving \$1.1 billion from a combination of VLF collections and State backfill. But this is not a normal year and the amount of VLF that the County receives is shrinking on a monthly basis.

One of the central elements of last year's State budget solution was the suspension of the local government backfill during August, September and October while the State implemented a VLF rate increase effective October 1, 2003. In recognition of the fact that the foregone backfill was owed to local governments during these months when the State could not afford it, the foregone revenue was declared to be a loan to the State that will be repaid in 2006. Los Angeles County's share of that loan is \$160 million. The County's adopted budget already assumes the loss of this money in the current year.

When the Governor rolled back the VLF increase by executive order on November 17, 2003, declaring the original increase to have been in error, it created two problems. Because the Legislature assumed the VLF rate would increase, it did not

Each Supervisor December 10, 2003 Page 2

provide an appropriation for the backfill. As a result, local governments no longer receive the revenue from the rate increase or the equivalent backfill to replace it, causing local governments' monthly VLF revenue to drop by about two-thirds. The Governor insists that the Legislature should appropriate the backfill. The Legislature insists that he show them how the State can afford the \$1.8 billion it would cost to do so this year.

The second problem created by the Governor's action is that by, in effect, rolling back the VLF rate increase retroactive to October 1, 2003 car owners who paid the higher rate are now owed a rebate. The DMV, on December 8, 2003, announced that they intend to finance the rebate by withholding the entire VLF collections of local governments — the remaining one-third — in January, February, (and March if necessary). The actual amount that will be withheld from each jurisdiction depends on the revenue each received due to the higher rate in November and December.

The estimated impact on the County from all of the above actions, assuming the Legislature fails to backfill the revenue loss from the VLF reduction, is the following:

Discretionary Gap Loss/Loan: Aug-Oct \$160 million\*

Discretionary Revenue/Backfill Loss: Nov-July\*\* \$318 million

Realignment Revenue/Backfill Loss: Nov-July\*\* \$257 million

**Total** \$735 million

- \* To be repaid in 2006
- \*\* June collections, July payment

As noted above, the \$160 million loan has already been taken into account in the Adopted Budget. The remaining \$575 million would require a revision of the Adopted Budget and necessitate major reductions in County spending. The attached pie chart shows the County's flexible costs or discretionary spending of \$1.4 billion under the Adopted Budget. A \$575 million loss represents 40 percent of the County's discretionary spending. Given a loss of this magnitude, all of the departments receiving discretionary funds would be affected and public safety departments, which receive 36 percent of those funds, would be affected the most.

The County is losing approximately \$63 million every month that the State fails to pay the VLF backfill. If the State does not resume payment of the backfill by January 1, 2004, I will propose a budget adjustment to the Board, in January 2004, to reflect the loss of these funds.

Each Supervisor December 10, 2003 Page 3

We will continue to keep you advised.

DEJ:GK MAL:JR:ib

#### Attachment

c: Executive Officer, Board of Supervisors
County Counsel
Local 660
All Department Heads
Legislative Strategist
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants

# Los Angeles County 2003-04 Final Adopted Budget \$17.127 Billion\*

Mandated vs. Discretionary Costs

Program Specific Revenue/Fixed Costs \$13.194 Billion or 77.0%

### Flexible Costs \$1.422 Billion or 8.3%

#### Public Protection \$515.5 Million or 3.0%

Community-Based Information Systems Contracts Advisory Body \$ 3.3 \$ 0.2 Office of Public Safety Coroner \$ 18.6 \$ 10.3 District Attorney - Criminal Probation - Camps/ \$ 65.7 Support Services **Emergency Preparedness** \$ 107.3 \$ 4.2 Sheriff Fire - Lifeguards \$ 287.3 \$ 18.6

#### All Other Costs \$906.5 Million or 5.3%

Agricultural Commissioner/ Health - Others Weights and Measures \$ 1.4 **\$** 5.3 Health - Tobacco Animal Care & Control \$ 101.8 \$ 6.7 **Human Relations** Approp for Contingencies Commission \$ 22.5 \$ 2.2 Capital Projects Ombudsman \$ 159.5 8.0 2 Consumer Affairs Other Public Services \$ 2.3 \$ 33.6 Countywide Services Parks & Recreation \$ 20.7 \$ 61.7 Extraordinary Maintenance Other Recreation \$ 41.0 & Cultural General Government \$ 21.2 \$ 281.5 Regional Planning Health - Drug Court \$ 8.5 \$ 1.8 Reserves/Designation Health - GF Contribution \$ 104.0

# Nonflexible Costs \$2.511 Billion or 14.7%

#### MOE & Mandatory Costs/Services \$2.352 Billion or 13.8%

Alternate Public Defender

\$ 33.6

Assessor **69.3** 

Net County Cost 53:933: Bullion or 23:0

Other Court Related (Indigent Defense \$36.6)

\$ 228.9

**District Attorney - Criminal** 

\$ 58.3

Health/Mental Health

\$ 595.7

**Local Agency Formation Commission** 

\$ 0.3

Probation - Other

\$ 201.0

Public Defender

\$ 125.8

Social Services

\$ 614.1

Sheriff

\$ 425.0

### Other Nonflexible Costs \$158.6 Million or 0.9%

Capital Projects - Seismic Retrofit

\$ 6.6

Grand Jury

\$ 1.3

Judgments & Damages/Insurance

\$ 21.7

Museums Obligation

\$ 29.8

Social Services

\$ 99.2

**Fixed Costs** 

\$13.194 Billion or 77.0%

(in Millions)

\$ 425.4

Subventions/Revenues That Offset Costs

76.8

**Debt Service Funds** 

\$ 7,452.1

43.5

Health/Social Services

71.8

Augmentation Fund

District Attorney

Special Funds/Districts

\$ 502.2

\$ 3,337.9

\$ 1,626.0

Trial Court Funding

160.7

Sheriff

Property Tax Administration

Proposition 172 - Public Safety

<sup>\*</sup> Excludes major interfund transfers of revenue that would artificially inflate the size of the total County budget.